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STATE FOR EEB/ESC/IEC/EPC:BGG, AF/EPS, AND AF/W

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TAGS: [EPET](#) [ECON](#) [EINV](#) [PGOV](#) [SN](#)

SUBJECT: NOT MUCH RESOURCE NATIONALISM IN SENEGAL

REF: STATE 150999

Classified By: CDA a.i. Jay T. Smith for reason 1.4 (b) and (d)

¶11. (C) SUMMARY: Resource nationalism is not a significant issue in Senegal at this time and the GOS has not attempted to directly manage the exploitation of the country's potential oil, gas, or mining reserves. The government's history to date is to negotiate exploitation rights with a wide range of mostly private international partners, although in an opaque, and perhaps non-competitive manner. Post recommends a USG policy that advocates in favor of transparency and open tenders for such contracts. END SUMMARY.

THE GOS RELIES ON INTERNATIONAL PARTNERS

¶12. (SBU) Resource nationalism is not a significant issue in Senegal at this time. In fact, the current trend is for the GOS to divest as a partner in the mining sector. The government does not participate directly in oil or natural gas exploration or exploitation. Senegal does not currently produce oil, although there are active exploration efforts, mostly off-shore. Historically, exploration blocks have been offered internationally by auction. One U.S. firm is active in the sector. Additionally, a U.S. firm's on-shore concession is producing a small amount of natural gas and there are a few additional efforts underway by international firms looking for natural gas reserves.

¶13. (U) In the past year, the GOS has negotiated a number of contracts with private companies to begin or expand mining operations. In each of these cases, the GOS has secured significant payments and royalties but has not imposed itself in the production or marketing of the minerals. Examples include:

-- a new concession for iron ore deposits to the Indian firm Mittal Steel Company, which will reportedly invest more than USD 2 billion in the effort;

-- Australia's mineral sands exploiter, Mineral Deposits Ltd. (MDL) negotiated rights to what it expects will be seven percent of the world's zircon output by 2009 from new concessions in Senegal. MDL also holds rights for gold mining concessions; and

-- an agreement in principle with the Indian firm IFFCO to take majority control of Senegal's phosphates extraction and production company, ICS. This is a case of the GOS divesting itself of its majority stake in the company.

PRIVATE AND OPAQUE

¶14. (SBU) One negative trend for the GOS's handling of the exploitation of its natural resources is the lack of openness in the deal-making and the opaque nature of the deals.

Another concern is an apparent effort by the GOS to require renegotiation of existing contracts or to abrogate one contract in favor of a new partner. In the case of Mittal, the GOS did not open up this potentially significant iron ore deposit to an international tender, and rather negotiated directly with Mittal. The South African Firm Kumba Iron Ore claims that the deal with Mittal impinges on its existing contract with the GOS. In the case of ICS, the GOS claims to have held discussions with a number of potential investors, but has clearly given IFFCO, a key existing shareholder, the priority. For MDL, the deal is apparently a GOS-mandated renewal and expansion of an existing contract, although with more favorable terms for the government.

THE USG SHOULD PUSH FOR SUNSHINE

15. (C) Even without clear cases of resource nationalism, Post recommends a USG policy that promotes open and fair tenders, and the public release of the terms of contracts to the extent possible without harming a private operator. The goal is to both improve opportunities for U.S. firms and to assure that the government and people of Senegal are gaining the best value possible from the country's resources.

SMITH